

2002 PROPOSED AMENDMENT TO THE HAWAII STATE CONSTITUTION

**QUESTION #2: ASSISTING NOT-FOR-PROFIT PRIVATE SCHOOLS,
COLLEGES, AND UNIVERSITIES**

CONSTITUTIONAL QUESTION	"Shall the State be authorized to issue special purpose revenue bonds and use the proceeds from the bonds to assist not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges, and universities; and to combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds to assist not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges, and universities, separately authorized, in a total amount not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds?"
BACKGROUND	<p>The Hawaii Constitution presently allows the State to issue (sell) special purpose revenue bonds (SPRBs) to assist various entities. These include manufacturing, processing or industrial enterprises; utilities serving the general public; health care facilities provided to the general public by not-for-profit corporations; early childhood education and care facilities provided to the general public by not-for-profit corporations; and low and moderate income government housing programs.</p> <p>The Hawaii Constitution does not presently allow the State to issue SPRBs to assist not-for-profit private elementary schools, secondary schools, colleges, and universities. In addition, the Constitution does not allow the Legislature to appropriate the proceeds of SPRBs (money raised from the sale of the bonds) for the support or benefit of any sectarian (religious) or nonsectarian (secular) private educational institution.</p>

EXPLANATION OF PROPOSED AMENDMENT	<p>The ballot question asks voters to allow the State to issue SPRBs and use the proceeds from the bonds to assist not-for-profit private elementary schools, secondary schools, colleges, and universities. In addition, the question asks voters to allow the State to combine ("pool") into a single issue of SPRBs two or more proposed issues of SPRBs to assist these not-for-profit private schools, colleges, and universities.</p> <p>A "bond" is a written promise to pay a specified sum of money (the principal amount) at a specified time in the future (the maturity date) and to periodically pay interest at a specified rate (the coupon rate), in return for a loan.</p> <p>If this amendment passes, then special purpose revenue bonds could be issued by the State in order to make funds available to private schools, at interest rates that are lower than the rates offered by commercial lenders. The State uses its tax-free bond issuing power to assist private schools so that the interest on what would otherwise be a taxable bond becomes free of income tax. Thus, a low interest rate on the borrowed money is obtained for the private schools.</p> <p>Special purpose revenue bonds are backed solely by the income of a revenue-producing enterprise (e.g., a private school). Special purpose revenue bonds are not backed by the "full faith and credit" (the full taxing and spending powers) of the State. The private schools, not the State, would be responsible to pay the bondholders. The costs of the bond issue would be paid by the private schools, as provided by law.</p> <p>A "pool" or "pooled issue" would allow a group of private schools to share the costs of a bond issue. It would make it possible for small schools to get together and participate in the bond issue.</p>
MEANING OF A "YES" VOTE	<p>A "yes" vote means that the Legislature would be able to authorize the State to issue SPRBs and use the proceeds from the bonds to assist a not-for-profit private elementary school, secondary school, college, or university. In addition, the State would be able to combine into a single issue of SPRBs two or more proposed issues of SPRBs, to assist these entities.</p>
MEANING OF A "NO" VOTE	<p>A "no" vote means that the Legislature would not be able to authorize the State to issue SPRBs to assist a not-for-profit private elementary school, secondary school, college, or university.</p>
MEANING OF A "BLANK" VOTE	<p>A "blank" vote - a ballot that is not marked either "yes" or "no" - is not counted as a "yes" vote or a "no" vote. However, the Hawaii Supreme Court has determined that in calculating the "ballots cast upon a question" under the Hawaii Constitution, blank votes will be counted in determining whether the proposal was approved. Therefore, casting a "blank" vote has the same effect as casting a "no" vote. Only a "yes" vote will be counted as a ballot cast in the affirmative on the question.</p>

PROS AND CONS	<p><i>Pros:</i></p> <p>Many private schools on the mainland have been able to use the proceeds of tax-exempt bonds similar to SPRBs to finance construction and renovation projects. While private schools in Hawaii may use long-term financing to finance construction and renovation, such financing may not be affordable to a school, especially a smaller private school, unless the bonds are tax-exempt.</p> <p>If this amendment passes, private schools will be greatly helped because they will be able to get financing at lower rates of interest. By bond pooling, a group of smaller private schools can pool their resources to use SPRBs. The costs of the bond issue will be paid by the private schools, as provided by law.</p> <p><i>Cons:</i></p> <p>This proposal is a major departure from the State's long-established policy of not providing public support for private schools. Public schools have a responsibility to educate the general public. Private schools have the privilege of selecting their students from the general public pool. The distinction between public and private schools must be kept firm and the lines must not be blurred.</p> <p>Tax revenues to the State will be reduced by the value of the income tax exemption. Instead of providing a tax-exempt financing opportunity to small, financially strapped private educational institutions, this measure will probably be of greater benefit to the large, affluent, and financially well-to-do institutions.</p>
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